

**Summary of Testimony of
Curt L. Hébert, Jr.
Chairman, Federal Energy Regulatory Commission
Before the Committee on Governmental Affairs
United States Senate
June 20, 2001**

The Commission's experience in regulating electric and natural gas utilities, and indeed the nation's experience in pricing and allocating vital goods and services, have taught us an important lesson: Consumers are better off if supply and pricing decisions are based on market mechanisms, rather than bureaucratic fiat. Thus, the Commission is committed to helping move this country toward open, competitive energy markets. At the same time, we recognize we must ensure that broken and dysfunctional wholesale markets are fixed. This poses challenges, particularly in California and the West.

In response to these challenges, the Commission has been working aggressively to reform market structures and to enhance consumer welfare in California and the West. The Commission has not lost sight of the point that the best way to lower wholesale electricity prices and to keep them low is to promote investment in badly needed supply-and-delivery infrastructure and to encourage demand reduction. The Commission's task remains to balance these goals to ensure that short-term measures do not undermine long-term priorities. The Commission's actions have focused on three objectives.

First, the Commission has taken important steps to mitigate prices in California. Some argue that we have not gone far enough, but the Commission has sought to ensure that price signals still elicit the additional supplies needed to remedy the current imbalance of supply and demand.

Second, the Commission has been working to address the need for infrastructure improvements throughout the West and especially in California. We have been trying to create the appropriate financial incentives to ensure that the transmission system is upgraded and that new natural gas pipelines are built.

Finally, we have been promoting the creation of a regional transmission organization (RTO) for the West. California depends on generation from outside the State. Conversely, the shortages and prices in California have affected the supply and prices in the rest of the West. A West-wide RTO will increase market efficiency and trading opportunities for buyers and sellers throughout the West.

The Commission's actions in California and the West are beginning to show results. On May 29, 2001, the Commission instituted a market monitoring and price mitigation plan in California, and prices immediately began to drop. The Commission still has more to do, but our past efforts have proven well-considered and appropriate.

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I. Overview

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to appear here today to discuss the Commission's role in the restructuring of electricity markets. The Commission has a vital role to play in this process, the focus of which is to ensure that wholesale electricity prices are, and remain, just and reasonable. This is a role that I and everyone else at the Commission take very seriously and have been working diligently to fulfill.

The Commission's experience in regulating electric and natural gas utilities, and indeed the nation's experience in pricing and allocating vital goods and services, have taught us an important lesson: Consumers are better off if supply and pricing decisions are based on market mechanisms, rather than bureaucratic fiat. Thus, the Commission is committed to helping move this country toward open, competitive energy markets.

At the same time, we recognize we must ensure that broken and dysfunctional wholesale markets are fixed. This poses challenges. Developing brand-new market-based rules to replace a decades-old system of government-sanctioned monopolies is not easy. We must be prepared to make adjustments as we learn more about how these new

markets function. Yet, we must also fight the impulse to make change for change's sake and, in the process, disrupt long-term goals.

The situation in California and the Western United States has forced us to confront even greater difficulties. In the electricity markets in California and the Western United States, there is a substantial imbalance of supply and demand. Any comprehensive evaluation of current prices charged in these markets must include consideration of the effect of prices on longer-term supply. As a federal appeals court recently said in rejecting challenges to the Commission's December 15, 2000 order on California, the Commission has been charting a "middle ground between the need for temporary price mitigation and the realization that competition must exist for the California energy market to survive in the long run." California Power Exchange Corp. v. FERC, No. 01-70031, 2001 U.S. App. LEXIS 6153 (9th Cir. April 11, 2001).

Also, by itself, the Commission can contribute only a small part of the solution to the energy problems in California and the West. While the Commission has authority to set rates for transmission and wholesale power in interstate commerce, and to regulate interstate natural gas pipelines and non-federal hydroelectric facilities in interstate commerce, it is state regulators that have siting authority for electric generation and transmission facilities, as well as authority over local distribution facilities (both for electricity and natural gas). State regulators also have the most significant authorities to encourage demand reduction measures.

In sum, the Commission is facing difficult choices. Reasonable people can differ over whether we have made the best choices; however, no one should doubt that the Commission has been working aggressively to ensure just and reasonable wholesale electricity prices in California as well as throughout the West and the rest of the country.

In today's testimony, I will describe the actions that the Commission has taken to address the problems in California and the West. In recent months, the Commission has taken dozens of actions to address dysfunctional wholesale energy markets in these regions. I will describe only the most significant Commission actions in this testimony; however, I have attached a comprehensive list. These actions focus on three objectives.

First, the Commission has taken important steps to mitigate prices in California. Some argue that we have not gone far enough, but the Commission has sought to ensure that price signals still elicit the additional supplies needed to remedy the current imbalance of supply and demand. The Commission has not lost sight of the point that the best way to lower wholesale electricity prices, and to keep them low, is to promote investment in badly needed supply-and-delivery infrastructure and to encourage demand reduction. The Commission's task remains to balance these goals to ensure that short-term measures do not undermine long-term priorities.

Second, the Commission has been working to address the need for infrastructure improvements throughout the West and especially in California. We have been trying to create the appropriate financial incentives to ensure that the transmission system is upgraded and that new natural gas pipelines are built.

Finally, we have been promoting the creation of a regional transmission organization (RTO) for the West. California depends on generation from outside the State. Conversely, the shortages and prices in California have affected the supply and prices in the rest of the West. A West-wide RTO will increase market efficiency and trading opportunities for buyers and sellers throughout the West.

The Commission's actions in California and the West are beginning to show results. On May 29, 2001, the Commission instituted a market monitoring and price mitigation plan in California, and prices immediately began to drop. The following table (Table 1) shows Western electricity spot prices before and after mitigation:

TABLE 1

Western Electricity Prices (\$/MWh)					
Date	COB	Mid-Columbia	NP15	Palo Verde	SP15
Mid-Week Daily Spot Prices					
4-Apr	\$314	\$316	\$267	\$237	\$237
11-Apr	\$388	\$383	\$347	\$181	\$178
18-Apr	\$262	\$271	\$258	\$230	\$224
25-Apr	\$318	\$313	\$296	\$292	\$281
2-May	\$246	\$252	\$225	\$220	\$212
9-May	\$443	\$438	\$476	\$455	\$479
16-May	\$247	\$247	\$235	\$222	\$211
23-May	\$419	\$415	\$410	\$385	\$381
Daily Spot Prices Following Mitigation					
29-May	\$165	\$161	\$163	\$153	\$130
30-May	\$127	\$122	\$128	\$129	\$117
31-May	\$180	\$177	\$175	\$176	\$151
1-Jun	\$153	\$151	\$156	\$165	\$150
4-Jun	\$167	\$160	\$163	\$178	\$153
5-Jun	\$102	\$100	\$114	\$118	\$105
6-Jun	\$62	\$60	\$75	\$90	\$75

Price Chart Labels: "COB" is the California-Oregon Border price. **Mid-Columbia** is a market pricing point located in the Pacific Northwest. "NP15" is north of Path 15, and represents prices in northern California. "SP15" is south of Path 15, and represents prices in southern California. **Palo Verde** is located in Arizona near the California border, and represents prices in the Southwestern United States.

In addition, prices for Western forwards contracts are also down significantly. For example, year 2002 forwards transactions have dropped from \$127 per MWh to \$68 per MWh, and 2003 forwards have dropped from \$60 per MWh to \$41 per MWh, in the past month.

I recognize that the Commission still has more to do in addressing the energy problems in California and the West. We will continue to fulfill the duty we owe to

consumers on these issues, but our past efforts have proven well-considered and appropriate.

II. Initial Investigation of California's Energy Problems

Electricity prices began rising dramatically in California last summer, and the Commission took prompt action. On July 26, 2000, the Commission ordered a staff investigation into the price fluctuations in electric bulk power markets in California and other regions. Order Directing Staff Investigation, 92 FERC ¶ 61,160 (2000). On November 1, 2000, upon reviewing the results of that investigation, the Commission proposed various remedies for California wholesale electric markets. San Diego Gas & Electric Company, et al., 93 FERC ¶ 61,121 (2000), reh'g pending.

Under the Federal Power Act, the Commission can order changes to existing rates, and all rules affecting those rates, only upon finding those rates or rules to be unjust and unreasonable. On December 15, 2000, after reviewing the comments on the November 1 proposal, the Commission issued an order in which it found that, under prior market rules and under certain conditions, prices in spot markets in California were not just and reasonable. San Diego Gas & Electric Company, et al., 93 FERC ¶ 61,294 (2000), reh'g pending. Consistent with the Federal Power Act, the Commission ordered changes to the market rules governing California's spot markets and also ordered additional market monitoring and price mitigation.

The Commission recognized that the primary flaw in the California market design was the requirement for the three investor-owned California utilities to buy and sell

power exclusively through the spot markets of the California Power Exchange (PX). The Commission concluded that the foremost remedy was to end this requirement and allow the utilities, first, to use their own remaining generation resources to meet demands and, second, to meet much of their remaining needs for power through forward contract purchases. This measure freed up 25,000 MW of generation that the utilities owned or controlled, which could be used directly to serve their load without having to sell it into the PX and buy it back at a much higher spot price. Our action returned to California the ability to regulate over one-half of its peak load requirements. The order also instituted an interim price mitigation measure and called for the development of a longer-term prospective mitigation plan.

III. Prospective Market Monitoring and Mitigation Plan

On April 26, 2001, the Commission adopted a prospective plan, which packaged together a number of related measures, for market monitoring and mitigation in California. San Diego Gas & Electric Co. v. Sellers of Energy and Ancillary Service, et al., 95 FERC ¶ 61,115 (2001). This plan, which was implemented on May 29, 2001, strikes a balance of bringing market-oriented price relief to the California electric market, providing greater price certainty to buyers and sellers of electric energy, promoting conservation, and - importantly - simultaneously encouraging investment in efficient generation and transmission.

The Commission established price mitigation for the real-time markets (i.e., markets in which sales are arranged 24 hours or less before delivery of the power starts)

run by the California Independent System Operator Corporation (ISO). The price mitigation, based on a price determined from a market-oriented formula, applies when the ISO declares a reserve deficiency (i.e., when generating reserves are at or below 7.0 percent), based on the rationale that during other periods, suppliers have less incentive and ability to bid a high price. Under the price mitigation, a market-driven price for real-time electricity is determined each day based on market costs for electricity inputs (natural gas and emission allowances), and the fuel usage ratio ("heat rate") and emission rate for the least efficient generator needed to meet demand that day. All California generators bidding at or below this market-driven price are paid this price. Any California generator bidding above this price and selected to run is paid its price, subject to refund and justification, but its bid does not raise the market-driven price.

This price mitigation plan reflects the way pricing works in competitive markets. As in a competitive market, the price is set by the highest priced supply needed to meet demand. The plan provides incentives for investments in efficient generation. The market price under this plan is set by the price of the least efficient generating facility used each day. Any new facility will receive this same price. Thus, the more efficient the new facility is, the more it will earn. Conversely, the plan provides incentives for retiring or replacing inefficient, dirtier facilities.

The price mitigation plan fulfills the requirements of the Federal Power Act. The Commission has broad discretion in setting rates, and is not required to use cost-based rates or any other specific methodology so long as the end result of its ratemaking is

within a zone of reasonableness. The Commission's ratemaking can reflect non-cost factors such as the need to promote development of new supplies or transportation capacity.

Moreover, the price mitigation plan works. Price mitigation was triggered during portions of the day on Wednesday, May 30, and Thursday, May 31, 2001, when the ISO announced reserve deficiencies. As a result, prices for hourly imbalance energy, which had risen to around \$299 per MWh before the alert on Wednesday, fell to \$120 per MWh, and rose no higher than \$135 per MWh during the rest of the day. On Thursday, prices rose to \$130 per MWh prior to the alert, but fell to \$108 per MWh when mitigation began, and fell further to \$64 per MWh. Although no reserve deficiencies nor price mitigation have occurred in subsequent days, prices have remained relatively modest, not exceeding \$150 per MWh, and generally trending below \$100 per MWh for most hours.

The plan also limits the ability of generators to exercise market power by withholding capacity. The Commission will continue to monitor plant outages and coordinate with the ISO to ensure that generators are not withholding capacity from the market. In order to assure all available power to California, the plan also requires all generators in California (with the exception of hydroelectric power) to offer all their available power not yet scheduled to run in real time. Furthermore, the plan provides that public utility sellers that engage in anti-competitive bidding behavior could be subject to refunds as well as revocation of their market-based rate authority.

The Commission intends to take action on rehearing requests for this order this week.

IV. Other Market Mitigation Actions

Pending development of the prospective mitigation plan, the Commission examined prices charged in California's spot markets during Stage 3 emergencies in January, February, March, and April of this year, and identified many transactions that warranted further investigation. The Commission required these sellers to either refund certain amounts (or offset these amounts against amounts owed to them) or provide additional information justifying their prices. Specifically, the Commission required refunds or offsets of approximately \$125 million dollars.

On March 28, 2001, the Commission ordered a hearing before an administrative law judge on whether El Paso Natural Gas Company or its marketing affiliate may have had market power and, if so, exercised it to drive up natural gas prices at the California border. Last week, the Commission broadened the scope of this investigation to include allegations of affiliate abuse by the two companies.

On April 30, 2001, the Commission approved a settlement with Williams Energy Marketing & Trading Company (Williams) and AES Southland, Inc., in which Williams agreed to pay refunds in the amount of \$8 million. The settlement was prompted by a Commission order that the two utilities show why they should not be found to have increased power prices in the California market, and potentially compromised the

reliability of the transmission network in violation of tariffs on file under the Federal Power Act, by extending outages at certain generating facilities.

On May 18, 2001, the Commission, recognizing that natural gas prices remain higher in California than in any other market in the United States, proposed new reporting requirements to provide the Commission with the necessary information on the prices of natural gas delivered to California. On May 22, 2001, the Commission issued a notice seeking comment on whether to re-impose ceiling prices for capacity release transactions on pipelines serving California.

V. Efforts to Increase Supply and Reduce Demand

On March 14, 2001, the Commission issued an order seeking to increase energy supplies and reduce energy demand in California and the West. Removing Obstacles to Increased Electric Generation and Natural Gas Supply in the Western United States, 94 FERC ¶ 61,272 (2001). The Commission implemented several measures immediately, including:

- o streamlining filing and notice requirements for various types of wholesale electric sales, including sales of on-site or backup generation and sales of demand reduction;
- o extending (through December 31, 2001) and broadening regulatory waivers for Qualifying Facilities under the Public Utility Regulatory Policies Act of 1978, enabling those facilities to generate more electricity;
- o expediting the certification of natural gas pipeline projects into California and the West; and,
- o urging all licensees to review their FERC-licensed hydroelectric projects in order to assess the potential for increased generating capacity.

On May 16, 2001, the Commission issued a follow-up order. Further Order on Removing Obstacles to Increased Electric Generation and Natural Gas Supply in the Western United States, 95 FERC ¶ 61,225 (2001). This order allows higher equity returns, and accelerated depreciation, for projects that increase electric infrastructure in the near future.

The Commission already is acting on many of the initiatives it announced in these orders. For example, in the month of April, the Commission significantly expedited its processing of applications - approved in a mere three or four weeks - to add significant amounts of natural gas pipeline capacity to California. Moreover, in recent months, the Commission has approved amendments to hydroelectric licenses that allow for additional generation at Western hydroelectric facilities in a manner that respects environmental values.

VI. Investigation of Other Real-Time Western Sales

The April 26 order adopting the prospective mitigation plan for California also opened a formal investigation into prices charged by public utilities for real-time wholesale power sales throughout the West. The Commission proposed: (1) to mitigate prices charged by all public utilities; and (2) to impose mitigation as a condition on all non-public utilities using the interstate transmission facilities of public utilities. Similar to the Commission's approach for the ISO's market, the Commission proposed to apply price mitigation here only when contingency reserves fall below 7.0 percent in any control area in the Western Systems Coordinating Council. The Commission sought

comments on what the price mitigation for these sales should be, stating that its intent is to mirror, to the extent possible, its approach in the ISO's real-time market. The Commission also proposed, as it required in the ISO's market, that generators should have to offer all energy available and not scheduled to run in real-time.

The Commission has received public comments on these proposals and intends to take further action this week.

VII. A West-Wide RTO

The development of a West-wide RTO is vital to preventing future problems in the West. Market conditions in California have affected markets throughout the West because the Western transmission system is an integrated grid. A West-wide RTO is critical to support a stable interstate electricity market that will provide buyers and sellers the needed non-discriminatory access to all transmission facilities in the West. A West-wide RTO will increase market efficiency and trading opportunities for buyers and sellers throughout the West.

On April 26, 2001, the Commission took major steps toward RTO formation in the West. Avista Corporation, et al., 95 FERC ¶ 61,114 (2001). First, the Commission accepted key parts of a proposal for an RTO that will span eight Western states, RTO West. RTO West will operate (but not own) more than 90 percent of the high voltage transmission facilities from the U.S.-Canadian border to southern Nevada. The Commission said RTO West can serve as a platform for the ultimate formation of a West-wide RTO. In the same order, the Commission accepted a proposal for an independent

transmission company within the RTO West structure, TransConnect. TransConnect will own and operate the transmission facilities of six utilities in the region.

In addition, at the Commission's discretion, the ISO and the three California investor-owned utilities made RTO filings on June 1, 2001. These filings await Commission action.

VII. Conclusion

As you can see, the Commission has been doing a great deal of work to help ease the present energy problems in California and the West, and to ensure that wholesale electricity rates in those regions are just and reasonable. There is still, however, work left to be done, and I can assure you that all of us at the Commission are committed to performing that work in a prompt and responsible fashion.

As we look to the future and consider the restructuring efforts in electricity markets in other regions, I would like to stress one thing: California's situation does not demonstrate the failure of electricity competition. Other states, such as Pennsylvania, have been successful in implementing electricity competition, and their citizens have reaped the benefits of lower rates, higher reliability, and the wider variety of service options. I am confident that market-based solutions offer the most efficient way to move beyond the problems confronting California and the West and to ensure reasonable rates and reliable service throughout the country. Thank you.

APPENDIX

Commission Staff Summary of Recent Commission Actions on California Electricity Markets

NOVEMBER 2000

- November 1: San Diego Gas & Elec. Co. (Complainant) v. Sellers of Energy and Ancillary Services into Markets Operated by CalISO and CalPX, 93 FERC ¶ 61,121 (order proposing remedies for California crisis on complaint of SDG&E)("November 1 Order")
- November 6: CPUC asks FERC to assist CPUC in investigation (Docket EL00-95-000)
- November 9: Public Conference re FERC-proposed remedies held in Washington (see 93 FERC ¶ 61,122)
- November 22: California Power Exchange Corp., 93 FERC ¶ 61,199 (order accepting amendments to streamline and clarify several provisions of the PX tariff)
- November 22: Pacific Gas & Elec. Co., 93 FERC ¶ 61,207 (order suspending PG&E transmission rate increase proposal)

DECEMBER 2000

- December 7:

SDG&E files request for emergency relief re natural gas prices (Docket RP01-180)

SoCal Edison files motion seeking to subpoena ISO Market Surveillance Committee data (Docket EL00-95-000)
- December 8:

San Diego Gas & Elec. Co., 93 FERC ¶ 61,238 (order waiving operating efficiency and other regulatory requirements governing "QFs" and other small power producers to boost power output in California)

December 8: California ISO Corp., 93 FERC ¶ 61,239 (order authorizing ISO tariff amendments to: (1) convert existing \$250/MWh hard cap on bids in the real-time market into a \$250/MWh breakpoint; (2) impose a penalty on generators who fail to comply with an ISO emergency order to provide power; and (3) assess costs against parties that underschedule demand or fail to deliver power.

- December 11 and 12: Motions for clarification, modification, and rehearing of December 8 ISO order
- December 13: SoCal Edison files motion for immediate modification of December 8 QF order
- December 13: California Power Exchange Corp., 93 FERC ¶ 61,260 (order accepting settlement re PX dispute resolution procedures)
- December 15: San Diego Gas & Elec. Co. (Complainant) v. Sellers of Energy and Ancillary Services into Markets Operated by CaISO and CalPX, 93 FERC ¶ 61,294 (Order adopting remedial measures to reduce reliance on volatile spot markets, including: (1) eliminating requirement that investor-owned utilities sell all their generation into the PX markets; (2) requiring 95 percent of demand to be scheduled in advance and establishing a benchmark for long-term contracts; and (3) imposing an interim \$150/MWh soft cap or "breakpoint" on spot markets pending development of longer term price mitigation plan)("December 15 Order")
- December 18 and 20: SoCal Edison and PG&E file emergency requests for rehearing of December 15 Order
- December 20: Marketers file emergency motion for order requiring ISO and PX not to disclose confidential information (Docket EC96-1663-000)
- December 22:

Dynegy files complaint alleging that rates paid for energy supplied in response to an ISO emergency order are confiscatory (Docket EL01-23-000)

Dynegy files emergency motion for clarifications of December 15 order to ensure payment to suppliers (Docket EL00-95-006)

Commission issues data request in response to December 7 SDG & E complaint re natural gas prices

- December 26: PX files request for rehearing and stay of December 15 order (Docket EL00-95-005)
- December 29:

Southern California Edison Co., 93 FERC ¶ 61,320 (order analyzing and accepting SoCal Edison rates for scheduling and dispatching)

Pacific Gas & Elec. Co., 93 FERC ¶ 61,322 (order rejecting PG&E filing regarding its scheduling on the ISO)

San Diego Gas & Elec. Co., 93 FERC ¶ 61,333 (order accepting SDG&E rate filing re so-called "RMR" generating units—units that must run to assure system reliability)

Southern California Edison Co., 93 FERC ¶ 61,334 (order accepting RMR tariff for SoCal Edison)

California ISO Corp., 93 FERC ¶ 61,337 (order accepting ISO grid management charges)

JANUARY 2001

- January 4: ISO files tariff amendment to relax its creditworthiness standards to allow PG&E and SoCal Edison to continue conducting transactions on ISO-controlled grid, notwithstanding downgrades in their credit ratings (Docket No. ER01-889-000)
- January 5: PX files tariff amendment to relax its creditworthiness standards to allow PG&E and SoCal Edison to continue trading in the PX markets, notwithstanding downgrades in their credit ratings (Docket No. ER01-902-000)
- January 8: San Diego Gas & Elec. Co., 94 FERC ¶ 61,005 (order clarifying that December 15 Order was not intended to bar the PX from engaging in bilateral forward contracting)

- January 12:
Pacific Gas & Elec Co., 94 FERC ¶ 61,025 (order authorizing intra-corporate reorganization of PG&E Corporation)
Sierra Pacific Power Co., 94 FERC ¶ 61,033 (order denying rehearing re priority use of certain California grid interties)
- January 16: California Power Exchange Corp., 94 FERC ¶ 61,042 (order authorizing PX to implement emergency tariff changes to allow SoCal Edison two additional days to make its payment)
- January 18: ISO files tariff amendment to conform to December 15 order re payment procedures for RMR operations (Docket ER01-991-000)
- January 19 through February 12: Various persons, including State of California and CPUC, file requests for late intervention and rehearing of January 12 order authorizing intra-corporate reorganization of PG&E Corporation (Docket Nos. EC01-41-000 and EC01-49-000)
- January 23: PG&E files motion for immediate order to stop PX from liquidating PG&E's long-term or "block forward" contracts after PG&E refuses PX demand for payment to cover a portion of SoCal Edison's nonpayment for transactions in the PX spot markets (Docket No. EL01-29-000)
- January 23: FERC staff conducts technical conference with industry representatives re prospective spot market monitoring and mitigation plan
- January 25: Pacific Gas & Elec. Co., 94 FERC ¶ 61,082 (order denying rehearing request re PG&E transmission rates)
- January 29: San Diego Gas & Elec. Co., 94 FERC ¶ 61,085 (order finding PX in violation of December 15 order for failing to implement \$150/MWh breakpoint)

FEBRUARY 2001

- February 1: Los Angeles Dep't Water & Power files emergency petition for reimposition of price cap on natural gas pipeline capacity (Docket RP01-222-000)
- February 2:

SoCal Edison files emergency motion for cease and desist order preventing PX from liquidating SoCal Edison's long-term "block forward" contracts to cover SoCal Edison's nonpayment for transactions in the PX spot markets (Docket EL01-33-000)

SoCal Edison and PG&E file for immediate suspension of underscheduling penalties imposed by December 15 order (Docket EL01-34-000)
- February 6: Mirant Delta files complaint with request for fast track processing that: (1) seeks enforcement of the creditworthiness standards for PG&E and SoCal Edison in the ISO tariff; and (2) alleges ISO violation of December 15 order for failure to replace governing board (Docket EL01-35-000)
- February 7: Pacific Gas & Elec. Co., 94 FERC ¶ 61,093 (order accepting settlement re PG&E transmission rates)
- February 8 and 12, and March 2: Various parties, including Coral Power, Enron, SDG&E, Salt River Project Agricultural Improvement and Power District, Sacramento Municipal Utility District, and Public Service Company of New Mexico file three complaints requesting that the PX be barred from further implementing tariff "charge back" provision that allows the PX to recover uncollected amounts owed by PG&E and SoCal Edison from other market participants (Docket EL01-36-000, EL01-37-000, and EL01-43-000)
- February 14: California ISO Corp., 94 FERC ¶ 61,132 (order rejecting ISO and PX tariff amendments relaxing creditworthiness standards for PG&E and SoCal Edison as applied to transactions affecting third-party suppliers)
- February 15: FERC staff meets with PX regarding requirements for implementing \$150/MWh breakpoint
- February 21:

California ISO Corp., 94 FERC ¶ 61,141 (order accepting amended Transmission Control Agreement among ISO and transmission owners and addressing complaints by City of Vernon regarding conditions of becoming participating transmission owner)

California ISO Corp., 94 FERC ¶ 61,148 (order denying rehearing of October 2000 order relating to ISO's Transmission Access Charge)

Pacific Gas & Elec. Co., 94 FERC ¶ 61,154 (order denying intervention and rehearing of January 12 order authorizing PG&E Corporation intra-corporate reorganization)

- February 22: generators request order compelling ISO to comply with February 14 order re creditworthiness (ER01-889-002)
- February 23: San Diego Gas & Elec. Co., 94 FERC ¶ 61,200 (order on rehearing of December 29 order re reassignment of RMR costs)
- February 26: PX files request for clarification/rehearing of February 14 creditworthiness order
- February 28:

PX makes compliance filing proposing implementation of \$150 MWh breakpoint requirement; seeks rehearing of January 29 order (EL00-95-016; EL00-98-015);

Tucson Electric files complaint against the Governor of California challenging California's "commandeering" of PG&E and SoCal Edison's long-term contracts from the PX (EL00-95; EL01-40-000)

Complaint filed by Strategic Energy L.L.C. versus ISO concerning out-of-market costs (EL01-41-000)

MARCH 2001

- March 1:

ISO files revised tariff amendment on creditworthiness in compliance with February 14 order rejecting earlier proposed amendment

California Electricity Oversight Board files motion for clarification of December 15 order

ISO and Electricity Oversight Board file motion for issuance of refund notice to sellers, request for data, and request for hearing

- March 2: Universal Studios files complaint against SoCal Edison challenging penalties Universal was charged for failing to interrupt its service under its interruptible service contract with SoCal Edison (Docket No. EL01-42-000)
- March 7 through 23: Various persons file second round of requests for intervention and rehearing of January 12 order authorizing PG&E Corporation intra-corporate reorganization
- March 8: Ridgewood Power requests emergency relief and extension of waiver of "QF" regulations applicable to small generators (Docket No. EL00-95-020)
- March 9:

San Diego Gas & Elec. Co. v. Sellers of Energy and Ancillary Services into Markets Operated by CalISO and CalPX, 94 FERC ¶ 61,245 (Order directing refunds or further justification for charges)

"Staff Recommendation on Prospective Market Monitoring and Mitigation for the California Wholesale Electric Power Market" (Docket Nos. EL 00-95-012, *et al.*)

San Diego Gas & Elec. Co. v. Sellers of Energy and Ancillary Services into Markets Operated by CalISO and CalPX, 94 FERC ¶ 61,243 (Order dismissing rehearing request of 1/8/01 order)

- March 14:

"Order Removing Obstacles to Increased Electric Generation and Natural Gas Supply in the Western United States and Requesting Comments on

Further Actions to Increase Energy Supply and Decrease Energy Consumption (Docket No. EL 01-47-000) (order includes: (1) requirement that ISO and western transmission owners file list of grid enhancements that can be implemented in short term; (2) extension of waiver of QF regulations through December 31, 2001; (3) authorization for western businesses with back-up generators and customers who reduce their consumption to sell wholesale power at market-based rates; and (4) solicitation of comment on additional proposals)

Cities of Anaheim, et al. v. ISO, 94 FERC ¶ 61,268 (order dismissing in part and granting in part complaint alleging that certain cities are being charged inappropriate costs when ISO allocates the cost of power obtained through emergency orders to generators).

AES Southland, Inc., Williams Energy Trading & Marketing Co., 94 FERC ¶ 61, 248 (order directing parties to explain why they should not be found in violation of the Federal Power Act for engaging in actions that inflated electric power prices)

- March 15: Chairman testifies before the Senate Committee on Energy and Natural Resources
- March 16: San Diego Gas & Elec. Co. v. Sellers of Energy and Ancillary Services into Markets Operated by CalISO and CalPX, 94 FERC ¶ 62,245 (notice re proxy market clearing price and refunds for February transactions)
- March 20: The Commissioners testify before the House Committee on Energy and Commerce, Subcommittee on Energy and Air Quality
- March 21: Reliant files fast-track complaint against the ISO challenging the ISO's issuance of emergency orders requiring generators to supply power (Docket No. EL01-57-000)
- March 22 through April 9: Parties file requests for rehearing of 3/9 order directing refunds (Docket No. EL00-95-019, et al.)
- March 28: CPUC v. El Paso Natural Gas Co., et al., 94 FERC ¶ 61,338 (order dismissing portion of complaint alleging affiliate abuse but ordering public hearing on whether El Paso exercised market power to drive up natural gas prices)

- March 29: ISO files motion for order directing Reliant to keep generating unit in service (Docket No. EL01-57-000)

APRIL 2001

- April 2 through 4: Proposed generation interconnection procedures filed by California ISO, PG&E, SDG&E, and SoCal Edison in compliance with 12/15 order (Docket Nos. EL00-95-022, -023, -024, -025)
- April 5: Complaint by California Cogeneration Council, et al., alleging that a CPUC decision affecting QF rates violates PURPA (Docket No. EL01-64-000)

- April 6:

San Diego Gas & Elec. Co. v. Sellers of Energy and Ancillary Services into Markets Operated by CalISO and CalPX, 95 FERC ¶ 61,021 (Order dismissing rehearing, accepting compliance filing, and directing the recalculation of lower wholesale rates)

Pacific Gas and Electric Co., et al., 95 FERC ¶ 61,020 (Order on complaints concerning use of chargebacks and liquidation of collateral)

Kern River Gas Transmission Co., 95 FERC ¶ 61,022 (Order issuing certificate for facilities to transport natural gas from Wyoming to California)

California Independent System Operator Corporation, 95 FERC ¶ 61,024 (Order granting motion of generators to compel ISO to comply with creditworthiness requirements)

California Independent System Operator Corporation, 95 FERC ¶ 61,026 (Order granting clarification in part and denying rehearing of order on PX tariff creditworthiness amendment)

Southern California Edison Co and Pacific Gas and Electric Co., 95 FERC ¶ 61,025 (Order deferring action on request for suspension of underscheduling penalty and issuing request for information)

- April 9: Ridgewood Power files an updated request for emergency relief re QF regulations in light of PG&E's bankruptcy filing
- April 10: Commission convenes Western Energy Issues Conference in Boise, Idaho
- April 10-12: The Chairman and General Counsel testify before the House Committee on Government Reform regarding wholesale electricity prices in California and the West

- April 16:

San Diego Gas & Elec. Co. v. Sellers of Energy and Ancillary Services into Markets Operated by CalISO and CalPX (unpublished notice of proxy price for March wholesale transactions in Docket No. EL00-95-028, et al.)

Calfornians for Renewable Energy files complaint against BC Hydro and other generators alleging withholding (Docket No. EL01-65-000)

- April 18: Public Utilities Commission of the State of California v. El Paso Natural Gas Co., et al., 95 FERC ¶ 61,089 (Order on rehearing regarding allegations of affiliate abuse and market power by gas pipeline)
- April 25: Tractabel Power Inc files a petition for enforcement action alleging that a CPUC decision affecting QF rates violates PURPA (Docket No. EL01-67-000)
- April 26:

San Diego Gas & Elec. Co. v. Sellers of Energy and Ancillary Services into Markets Operated by CalISO and CalPX, 95 FERC ¶ 61,115 (Order establishing prospective mitigation and monitoring plan for the California wholesale electric markets and establishing an investigation of public utility rates in wholesale Western energy markets)

Avista Corporation, et al., 95 FERC ¶ 61,114 (Order granting, with modification, RTO west petition for declaratory order and granting Transconnect petition for declaratory order)

CalISO files bylaw amendments incorporating changes in governance (Docket No. EL00-95-030, et al.)

- April 27:

Calpine Corp. files a petition for enforcement action and/or a declaratory order alleging that a CPUC decision affecting QF rates violates PURPA (Docket No. EL01-71-000)

Commission notices initiation of investigation of rates in the WSCC (Docket No. EL01-68-000)
- April 30:

Edison Mission Energy files an application for approval of corporate reorganization (Docket No. EC01-93-000)

AES Southland, Inc. and Williams Energy Marketing & Trading Co., 95 FERC ¶ 61,167 (Order approving stipulation and consent agreement with respect to issues raised in the 3/14 show cause order)

MAY

- May 1:

The Commissioners testify before the House Subcommittee on Energy and Air Quality to discuss the proposed Electricity Emergency Relief Act

The Director of Markets, Tariffs and Rates issues a letter to the ISO, PG&E, SDG&E, and SoCal Edison offering staff's assistance to complete RTO filings
- May 2: The Commission instituted a proceeding under FPA § 210(d) in Docket No. EL01-72-000 to consider whether it may need to order interconnection or transmission services to alleviate generation capacity shortages in California
- May 3: Western Systems Coordinating Council and two regional transmission groups file a petition for a declaratory order disclaiming jurisdiction or for an order approving the transfer of functions to a new Western Electricity Coordinating Council.(Docket Nos. EL01-74-000/EL99-23, et al.)
- May 7:

Requests for rehearing of the Commission's 4/26/01 market mitigation order filed (Docket No. EL00-95-031, et al.)

Request for rehearing of the 4/6/01 order granting motion filed (Docket No. ER01-889-004, et al.)

El Paso Natural Gas Co., 95 FERC ¶ 61,176 (Order issuing a certificate permitting increased pipeline capacity to California by converting an oil pipeline to gas service)

City of Vernon files a complaint asking FERC to prevent the ISO from subjecting Vernon's customers to rolling blackouts (Docket No. EL01-75-000)

- May 9: Director of OMTR issues a letter to Southern California Air Quality Management District requesting information on its NO_x Emission Program
- May 10: Cogeneration Ass'n of California files a petition for enforcement action and/or a declaratory order alleging that a CPUC decision affecting QF rates violates PURPA (Docket No. EL01-77-000)
- May 11: CalISO files a compliance filing in Docket No. ER01-889-005, as directed in the 4/6/01 order granting motion
- May 14:

Cities of Anaheim, et al. v. CalISO, 95 FERC ¶ 61,197 (Order on rehearing concerning complaint about OOM costs)

Edison Mission Energy, 95 FERC ¶ 61,198 (Order approving corporate reorganization)

San Diego Gas & Elec. Co. v. Sellers of Energy and Ancillary Services into Markets Operated by CalISO and CalPX, 95 FERC ¶ 62,125 (notice of proxy price for April wholesale transactions in Docket No. EL00-95-033, et al.)

- May 16:

Removing Obstacles To Increased Electric Generation And Natural Gas Supply In The Western United States, 95 FERC ¶ 61,225 (Further order on removing obstacles to increased energy supply and reduced demand in the Western United States and dismissing petition for rehearing)

San Diego Gas & Elec. Co. v. Sellers of Energy and Ancillary Services into Markets Operated by CalISO and CalPX, 95 FERC ¶ 61,226 (Order granting motions for emergency relief by QFs in part and establishing further procedures)

California Independent System Operator Corporation, 95 FERC ¶ 61,199 (Order accepting in part and rejecting in part ISO Tariff Amendment No. 38)

- May 18: Reporting of Natural Gas Sales to the California Market, 95 FERC ¶ 61,262 (Order proposing reporting requirements on natural gas sales to California markets and requesting comments)
- May 22: San Diego Gas & Electric Co., et al., 95 FERC ¶ 61,264 (Order requesting comments on whether the Commission should reimpose the maximum rate ceiling on short-term capacity release transactions into California)
- May 24: Commission convenes a technical conference regarding pipeline capacity into and adequacy within California (Docket No. PL01-4-000)
- May 25:

San Diego Gas & Electric Co., et al., 95 FERC ¶ 61,275 (Order providing clarification and preliminary guidance on implementation of mitigation and monitoring plan)

CE Generation files a petition for enforcement action alleging that a CPUC decision affecting QF rates violates PURPA (Docket No. EL01-83-000)

JUNE

- June 1:

California ISO, SDG&E, SoCal Edison, and PG&E submit RTO compliance filings in RT01-85, et al.

Salt River Project Agricultural Improvement and Power District files a complaint alleging the ISO overcharged Neutrality Adjustment Charges during CY 2000 (Docket No. EL01-84-000)

- June 4: Cogeneration Council of California, et al. (Notice of intent not to act re two petitions for enforcement filed pursuant to PURPA § 210(h) in Docket Nos. EL01-64-000 and EL01-67-000)
- June 11: CPUC v. El Paso Natural Gas Co., et al., 95 FERC ¶ 61,368 (Order granting in part rehearing of 3/28/01 order and setting for hearing the allegations of affiliate abuse raised by complainants)
- June 13:

California Independent System Operator Corporation, 95 FERC ¶ 61,391 (Order denying rehearing of order granting motion of generators to compel ISO to comply with creditworthiness requirements)

California Independent System Operator Corporation, 95 FERC ¶ 61,390 (Order accepting ISO tariff amendments to conform with FERC formatting requirements)

COURT CASES

- In re: Southern California Edison Co., No. 00-1543 (D.C. Circuit Jan. 5, 2001) (petition for writ of mandamus to order FERC to set cost-based rates denied)
- City of San Diego v. FERC, No. 00-71701 (9th Cir.)(petition for writ of mandamus regarding Dec. 15 order; petition denied on April 11, 2001)
- In re: California Power Exchange Corp., No. 01-70031 (9th Cir.)(petition for writ of mandamus to stay Dec. 15 order; petition denied on April 11)
- California Municipal Utilities Association v. FERC, No. 01-1156 (D.C. Cir.)(petition for review of Dec. 15 order)
- Modesto Irrigation District v. FERC, No. 01-1157 (D.C. Cir.)(petition for review of Dec. 15 order)

- County of San Diego v. FERC, No 01-1178 (D.C. Cir.)(petition for review of Dec. 15 order)
- Reliant Energy Power Generation, Inc., et al. v. FERC, No. 01-1179 (D.C. Cir.)(petition for review of Dec. 15 order)
- City of San Diego v. FERC, No. 01-70609 (9th Cir.)(petition for review of Dec. 15 order)
- Western Power Trading Forum and Coalition of New Market Participants v. FERC, No. 99-1532 (D.C. Cir.)(petition for review challenging the Commission's approval of governance for the California ISO dismissed on 4/10/01)
- In re: John L. Burton, et al. v. FERC, No. 01-70812 (9th Cir.) (Court denied petition for writ of mandamus on 5/29/01)

STAFF INVESTIGATIONS

The Commission's staff has completed or initiated a number of public investigations, audits, and studies of matters relating to events in California, including:

- An audit of generation outages (report issued February 2, 2001)
- An analysis of the effect of a western region-wide price cap (released in early February)
- An analysis of causes of high prices in Pacific Northwest and California (released in early February)